ASSESSMENT LIFE INSURANCE

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The subject of assessment life insurance represents the pathological side, if I may so express it, of life insurance. Instead of dwelling upon the physiology of life insurance, upon the normal phases of it, I am invited to discuss those phases which are abnormal and which we hope are now passing away. In order to do so, I find it necessary to make some explanation of how it happened that the disease of assessmentism set in.

It is worth while for the young men of the new generation, who scarcely know assessmentism at all, except as connected with another form of insurance, to be made acquainted with that which was well known to their fathers, and but scarcely known to their grandfathers. When I say it was scarcely known to their grandfathers, I mean that there was a time when the pathological side of life insurance, that is insurance of a pathological nature of this particular type at least, did not exist, and when, whatever other diseases life insurance might have been inflicted with, this particular disease known as assessmentism was not to be found. I shall point out to you why assessmentism in this country became prevalent; because diseases or disorders in life insurance, quite as physical diseases, do not originate independently, but grow out of other pathological symptoms.

Now, the particular situation which gave rise to assessment life insurance and its great growth in this country was the following: In their early history the regular life insurance companies of the United States addressed themselves to furnishing protection. Today one will often hear representatives of the fraternal societies distinguishing between insurance and protection, and claiming that their organizations are for the express purpose of furnishing protection,

as distinguished from investment; and I think it is a matter of common knowledge that regular companies doing a life insurance business in the United States at this time give a very large part of their attention to investment insurance, and their agents scarcely talk protection, separate from investment, at all. This was not the case in the early days. On the contrary, *the* insurance policy was the whole life policy, a policy with level premiums payable so long as the insured lived, the amount being payable when the insured died, and with no other benefits. These policies had no surrender values originally, although there was every reason why some surrender value might have been allowed; but while they had no surrender values, the rates, being computed upon certain conservative bases, which I shall discuss in the article on fraternal insurance, were what we may call redundant, and the expected mortality was much greater than experienced. In consequence, there was a large margin on these premiums and, as most of the companies were mutual, or, if not mutual, sold participating mutual policies, which promised the insured a share in the surplus, it necessarily followed that there were large dividends, so called, to be paid to the insured.

Now, when men are seeking for protection, there are two questions for them to consider, quality of protection and the price; and these companies, or some of them at least, at the start expected to earn dividends and to pay them annually, equal to fully 50 per cent. of the premiums they were charging. In order to convince the public that they would earn these dividends and believing that it was a perfectly safe and prudent thing to do, they offered to permit a portion of the premium, usually 40 per cent. or 50 per cent., to stand against the policies as a charge, bearing interest; and the expectation held out to the insured was that the charge would be wiped out by dividends. Now consider what this would mean. Take it on a 50 per cent. basis. It meant that when a man was actually paying $16 for $1,000 of insurance, the insured was led to believe that his insurance was worth only $8; and that was all he paid in cash at the time. In point of fact, largely because men conducting companies did not understand what they were doing, the annual dividend expectations, in connection with which these charges against the policies had been made, were disappointed; and the insured found himself with an increasing charge against his policy which amounts to a diminution of the amount insured, and with an increasing rate

to pay, including the interest upon the increasing charge; in other words, with more to pay and less to get. This was unsatisfactory, and the plan became unpopular; but it left one psychological result in the minds of unthinking people, and that was that insurance at that age was worth only $8. Moreover, it chanced that the death-losses in some companies were only 8, 9 or 10 per thousand for a time. So they declared they were robbed, mistreated.

Men also learned at this time that there was a reserve in life insurance, and that the state required the company to hold a reserve; but they had no idea concerning its function, and they believed it to be unnecessary. They said, these losses are only 8 or 9 out of every thousand; there are some variations from year to year, but it is evident there is no natural increase. So a company can pay its losses out of current premiums, can pay liberal expenses, and have a large surplus left. There is, consequently, no use for a reserve. That was their reasoning. The want of surrender values, giving back to the insured a portion of the reserve in case he was compelled or desired to stop his insurance, was one reason why that psychological result was to be found in the minds of the policyholders. So we have two things, the issue of the fallacious, misleading, annual dividend, loan note policy and the refusal to give surrender values, representing some part of the reserve. These two things, working together, produced in the minds of the people two ideas, one being that there was no reason for holding the reserve, which was only a means of robbing the policyholders, and the other that the insured need pay only about one-half the premiums they had been charged by the old-line companies, which was all that was required to pay the losses.

In the year 1868, after all these conditions which I have described had long been present and were growing worse, there was launched in the state of Pennsylvania, in the little city of Meadville, an assessment plan. That was the beginning practically of assessment life insurance in the United States. It was not really the intention to make this association an insurance society, but something akin to a labor union. It was given the name of the Ancient Order of United Workmen. Incidentally, as one will find to be the case now in a good many thriving unions, it was proposed to give a small protection to the members of the union out of a common fund to be contributed by the payment of $1 by each member

whenever another died. Subsequently, however, the organization dispensed with the idea of assessing the members until the funds on hand were wiped out by death losses. The labor union part of the proposition was an utter failure from the start; but, owing to the conditions I have just mentioned, the assessment life insurance feature became, after two or three years, extremely popular. Similar institutions multiplied throughout Pennsylvania, and in a short time throughout the entire country, the ground having been well prepared for assessmentism, as has been mentioned.

I want to call attention to the fact that about the time that it became popular, there also arose an extremely favorable condition for it, viz., the panic of 1873. For when the panic came it caused the downfall of a large number of the regular life insurance companies. From the years 1872 to 1880 the amount of insurance in force in the regular companies diminished about 50 per cent. by the failure of companies and on account of hard times. It was necessary for men to find some sort of life insurance from month to month as it were and at level cost, and according to what an extremely happy phrase-maker recently named it, the most "comfortable" method of payment, namely, by monthly payments. About the same time the tontine, or deferred dividend, plan became a feature of life insurance. It provided that all money paid in by the insured should be pooled for ten, fifteen or twenty years. We have practically an abandonment of the pure insurance field by the regular companies at this time, or at least by the most enterprising and progressive of the regular companies. They began to address themselves to those persons who, observing the enormous number of lapses and discontinuances which took place during the panic times, and the hard times that followed, were convinced that they could make a good speculation out of what agents called their "financial strength," *i. e.*, their ability to keep their policies in force; and as the hard times caused people to want cheap insurance, protection policies as distinguished from investment policies, conditions became extremely favorable for the introduction of assessment insurance in the United States.

It may be well to say a little more, by way of introduction, as to what assessmentism was, what it did, and how it came to be; and to state that if such a plan had not been introduced at just this time by the A. O. U. W., it might never have been known in the

United States. The idea was conceived by Father Upchurch, who had learned of the friendly societies of Great Britain and knew that insurance on the assessment plan had been furnished by these societies. Another thing that he would have known, had he been a deeper student, was that the plan had been an utter failure in Great Britain, and that the friendly societies were reforming their methods and abandoning systems such as he introduced, adopting more scientific modes of doing business. Traces of something like assessment life insurance societies are to be found far back in history, in the ancient guilds of Rome and Greece, of Germany and Great Britain, but the sums to be paid were usually small funeral benefits or benefits for the last illness. Now suppose the members were charged ten cents a month to furnish a benefit of $50 upon the death of one of them, it would be a high price, but it is evident that the members would not be likely to try to ascertain whether they should have paid 12 or 8 cents, for the simple reason that the contributions were small and the benefits were small. We find, however, that when a large portion of the membership found that there was discrimination when the amounts were larger a totally different case presented itself.

Somewhere about the close of the seventeenth century, the year 1694, I think, there was chartered by a special act of the British parliament a society known as the Amicable Corporation, for the purpose of furnishing insurance upon the lives of its members. Its system was as follows: Every member made a contribution, without regard to age, each year. At the end of the year the funds that were on hand were divided equally among the claimants of the persons who had died during the year, and also without regard to age. About a quarter of a century later there was organized a regular life insurance company, which furnished policies for only one year, or five or seven years, and at a high price; so that the Amicable Society for a half century or more had a monopoly of what we now call whole life insurance. Notwithstanding this monopoly, it became necessary for the society to make different provisions concerning the distribution of its funds and also concerning the collection of funds.

In 1762, as a result of lectures in London by a former professor of mathematics in Cambridge, Mr. Dodson, and by a man whom the Encyclopedia Britannica calls the ablest non-academic mathema-

tician Great Britain ever produced, Mr. Thomas Simpson, a society called the Equitable Society was founded. It was refused a charter by the British parliament on the ground that the plan it proposed to give its members was a new idea, untried, dangerous and difficult to understand, and that if such a thing was attempted at all the company should be compelled to raise a very large capital, all of which seems amusing at this time, for the system proposed was the level premium plan. This society, the Equitable of London, was the first regular life insurance company in the world to do a whole life, level premium business. It is in existence to-day with more than twenty-five millions of assets and about forty millions of insurance in force.

After the organization of the Equitable, there continued to be assessment plans in Great Britain, and some societies of the "$1.00 a month" or "$1.00 every time a member died" sort, grew to great size, and then failed or changed their plans. All this was before the time of Father Upchurch and might have been known by him.

As a result of the introduction of the plan in this country, and the favorable conditions for its spread, there came to be numerous societies on the assessment basis. Please bear in mind that the plan introduced by Father Upchurch was to collect just enough money to pay the claim by levying a certain sum on all members without regard to age. There sprang up numerous small associations, some of which grew to large proportions. The Ancient Order of United Workmen now has more than 400,000 members and over $700,000,000 of insurance.

In addition to the above-named societies, there are others known as business assessment associations, where the management is vested in persons who have the power of perpetuating their control by means of proxies from the members. These societies claimed to be superior to fraternal societies, because of the business men's services that they were able to secure and utilize and their superior attention to the details in the conduct of the business. Some of these became large institutions, and ten or fifteen years after their first appearance a very large portion of the life insurance of the country was in "business assessment" societies.

They did not, however, proceed very far on the equal levy, or flat assessment, system. They felt it was not only unfair to put a man of sixty and a youth of twenty in the same class and to charge

the same rate of premium for both, but that it also resulted in the young man aged twenty or thirty not going in or not remaining in, on account of the excessive cost, while the old man persisted. In the State of Pennsylvania at this time, for example, there were myriads of these societies. No other part of the country was so pestered with them as Pennsylvania. Many were called "graveyard" associations because they allowed speculation on the lives of old men in feeble health by persons who had no interest in their lives whatever. These concerns were short lived, of course.

They did not, however, proceed very far on the equal levy, or flat assessment plan of lfe insurance, which was so unfair and dangerous on account of no regard being paid to the ages of the members upon entering. Most of the business societies were organized on the basis of charging a different levy or assessment according to the age of the member at his introduction into the society. That is to say, for instance, charging a member introduced at the age of 20, forty cents, one introduced at the age of 40 sixty cents, one introduced at the age of 50 one dollar, or whatever the case may be. Frequently these rates were based on a misapprehension of the mortality table. At the age of 20 men die at an average say of 7 per 1,000; at the age of 40, 10 per 1,000; at the age of 50, 15 per 1,000, and at the age of 60, 30 per 1,000. Therefore, said they, the monthly rate for the man at 20 will be one-twelfth of $7, or 60 cents; at 40 it will be 90 cents and at 50 it will be $1.25 and at 60 $2.50. This they called equitable distribution of cost and thought it met all requirements, forgetting that it was good for but one year. Almost all of these so-called business assessment life insurance societies were organized on that plan.

Later in the development of the business, there were two modifications of the plan, one consisting of the creation of a reserve by adding a percentage to the assessment, which reserve was to be called upon to help out the excess cost over what the net assessment would provide. A second method of making reserves was invented by one of the most ingenious minds that has been engaged in life insurance. According to this method it was proposed to utilize the gains from lapses, that is to say, over-payments by members who did not keep up their policies, to reduce the premiums for all members. It was designed that under this system both the premiums and reserves of the persistent members would be lower than

under the usual plan which does not count the gains from lapses. Investigations since that time have shown that if these gains are discounted and applied to reduce the premiums the reserves will not be reduced; while only in case the premiums are not reduced will the reserve be reduced. Only one company made extended use of this plan. That company was able later to reorganize as a regular life company, and is now conducting a prosperous business as such.

For the most part, the business assessment societies have passed out of existence. In any event, they occupy relatively a much less important place than hitherto. The proportion of the total life insurance in the country, held in the business assessment associations, has steadily decreased, and for many years the amount in force has diminished. A considerable number of smaller societies are still held together by special influences, and in a few cases great economy and skill in management, resulting in low expenses and low mortality, has enabled the companies to thrive even to this day, notwithstanding the defects of their plans. Many of those which have gone out of business have failed, but a respectable number were reorganized as regular companies, dealing with their assessment business in various ways, which I shall not here attempt to discuss.